

Report of the Directors

The directors submit their report and the audited financial statements of the company, British Telecommunications plc, and the group, which includes its subsidiary undertakings, for the 2001 financial year.

Introduction

The business review on pages 8 to 25, our commitment to society on pages 26 and 27, the financial review on pages 30 to 48, the discussion on corporate governance on pages 53 to 56, risk factors on pages 57 to 61 and the report on directors' remuneration on pages 62 to 71 form part of this report. The audited financial statements are presented on pages 73 to 131.

Principal activity

The group's principal activity is the supply of communications services and equipment. In the 2001 financial year, 91% of group turnover arose from operations in the UK.

Directors

The names and biographical details of the directors of the company are given on pages 49 and 50. All served throughout the financial year, with the exception of Maarten van den Bergh, Sir Anthony Greener and Philip Hampton who joined the Board on 1 September, 1 October and 1 November 2000, respectively, and Sir Christopher Bland, who joined the Board as Chairman on 1 May 2001. In addition, Robert Brace and Keith Oates served as directors until their retirement on 31 December 2000, as did Bill Cockburn and Sir Iain Vallance until their retirement on 31 March and 1 May 2001, respectively. Following his retirement from the Board, the former Chairman, Sir Iain Vallance, remains with BT as President Emeritus.

In accordance with the articles of association, Sir Christopher Bland, Sir Anthony Greener, Philip Hampton and Maarten van den Bergh, having been appointed to the Board since the last annual general meeting, retire at the forthcoming annual general meeting and will be proposed for election. Lord Marshall, Dr Anderson and Sir John Weston retire by rotation. Dr Anderson and Sir John Weston will be proposed for re-election. Details of these directors' service contracts or contracts of appointment are included in the discussion on corporate governance on page 53 and the report on directors' remuneration on pages 70 and 71.

Substantial shareholdings

At 22 May 2001, the company had received no notification under Part VI of the Companies Act 1985 in respect of holdings of 3% or more of the company's issued ordinary share capital.

Interest of management in certain transactions

During and at the end of the 2001 financial year, none of the company's directors was materially interested in any material

transaction in relation to the group's business and none is materially interested in any presently proposed material transactions.

Policy on the payment of suppliers

BT's policy is to use its purchasing power fairly and to pay promptly and as agreed.

BT has a variety of payment terms with its suppliers. The terms for payments for purchases under major contracts are settled when agreeing the other terms negotiated with the individual suppliers. It is BT's policy to make payments for other purchases within 30 working days of the invoice date, provided that the relevant invoice is presented to the company in a timely fashion and is complete. BT's payment terms are printed on the company's standard purchase order forms or, where appropriate, specified in individual contracts agreed with the supplier. The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the 2001 financial year and the amounts owed to its trade creditors at the end of the year was 21 days.

Auditors

A resolution to reappoint PricewaterhouseCoopers as auditors of the company and authorise the directors to settle their remuneration will be proposed at the annual general meeting.

Authority to purchase shares

The authority given at last year's annual general meeting for the company to purchase in the market 650 million of its shares, representing 10% of the share capital in issue at 24 May 2000, expires on 11 October 2001. This authority was not used during the year and shareholders will be asked to give a similar authority at the annual general meeting.

Annual general meeting resolutions

The resolutions to be proposed at the annual general meeting to be held on 18 July 2001, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

By order of the Board

C R Green

Secretary

22 May 2001

Registered office: 81 Newgate Street, London EC1A 7AJ

Registered in England No. 1800000